

BEFORE THE
PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF:

A Formal Review of the)	
Current Status of Trimble County)	CASE NO. 9934
Unit No. 1)	

AFFIDAVIT OF LANE KOLLEN

STATE OF GEORGIA)	
)	SS
COUNTY OF FULTON)	

LANE KOLLEN, being first duly sworn, deposes and says:

I am a Certified Public Accountant with over ten years of accounting experience in the electric utility industry. I have testified on accounting matters before utility regulatory commissions in Louisiana, Kentucky, West Virginia, Connecticut and Minnesota. My experience also includes performance of numerous studies concerning the tax treatment of cancelled plant.

I have reviewed LG&E's calculation of the present value of revenue requirements accompanying the cancellation of Trimble County. Exhibit 1 is a copy of LG&E's calculations. The Company's result indicates that in the event of cancellation of Trimble County LG&E would collect \$381 million in present worth revenue requirements on the plant over the amortization period.

I have found several serious errors in their calculation. First, LG&E incorrectly assumed the loss on Trimble County would be written off for tax purposes at a 34% rate.

This is incorrect because LG&E would have been required to carryback its loss on Trimble County to prior tax years, when the higher 46% federal tax rate would have been in effect. As a result, LG&E substantially understated the tax savings and overstated the revenue requirements associated with the cancellation of the plant.

Second, LG&E neglected in its calculation of the first year of revenue requirements to deduct from rate base the deferred taxes created by the Trimble County tax loss. This is incorrect because LG&E assumed there would be no current year (1987) utilization of the abandonment loss and no carryback to the years 1984-1986 for the remainder of the abandonment loss not utilized in the current year. Consequently, there should have been a deduction for the deferred taxes from rate base in the first year as well as subsequent years.

Third, LG&E assumed a full year return on the Trimble County investment during the first and last years of the amortization period. However, LG&E also included one half year of CWIP in rate base in the cancellation case, thereby including one and one-half year of return on Trimble in the cancel case during the initial year of the study. This is clearly in error.

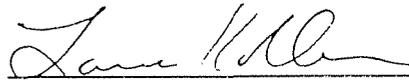
Exhibit 2 is a copy of the Trimble County amortization assuming corrected tax treatment. The results yield a total present worth of revenue requirements in the cancel case of only \$276 million, some \$105 million less than assumed in all of LG&E's cancellation studies.

Exhibit 2 provides for a full return of and on the cancelled Trimble County investment. Consequently, there would be no writeoff for LG&E under the provisions of SFAS-90 (Regulated Enterprises - Accounting for Abandonments and Disallowances of

Plant Costs).

Based on this information it is my conclusion that:

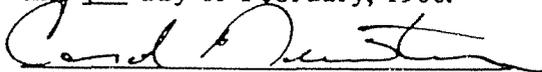
1. LG&E has overstated the costs associated with the cancellation option in its studies by \$105 million on a present worth basis.
2. The 35 year write-off with return proposed by KIUC is in conformance with generally accepted accounting principles and would not result in any reported loss to shareholders.



Lane Kollen

State of Georgia
County of Fulton

Sworn to and subscribed before me
this 9th day of February, 1988.



Notary Public

My commission expires: _____

Notary Public, Georgia, State at Large
My Commission Expires August 21, 1989



LOUISVILLE GAS AND ELECTRIC COMPANY
 Revenue Requirements Associated
 with Cancelling Trimble County Unit No. 1

Year	(1) Unamortized Cancelled Plant	(2) Amort- ization	(3) Tax Write-Off	(4) Deferred Income Tax	(5) Accumulated Deferred Income Tax	(6) Balance Included in Rate Base	(7) Return on Equity	(8) Interest on Debt	(9) Income Tax	(10) Revenue Requirement	(11) Present Value Factor	(12) Rev Req
1	387,122,000	19,357,000	387,122,000	142,637,655	0	387,122,000	26,430,755	17,739,866	-125,891,485	80,273,791	0.897585	72,052,590
2	367,765,000	38,712,000		-15,014,449	142,637,655	225,127,345	15,370,569	10,316,461	24,753,035	74,137,616	0.805660	59,729,691
3	329,053,000	38,712,000		-15,014,449	127,623,206	201,429,794	13,752,619	9,230,520	23,727,924	70,408,614	0.723148	50,915,882
4	290,341,000	38,712,000		-15,014,449	112,608,757	177,732,243	12,134,669	8,144,580	22,702,812	66,679,612	0.649088	43,280,908
5	251,629,000	38,712,000		-15,014,449	97,594,308	154,034,692	10,516,719	7,058,640	21,677,701	62,950,610	0.582612	36,675,756
6	212,917,000	38,712,000		-15,014,449	82,579,858	130,337,142	8,898,768	5,972,700	20,652,589	59,221,608	0.522944	30,969,568
7	174,205,000	38,712,000		-15,014,449	67,565,409	106,639,591	7,280,818	4,886,759	19,627,478	55,492,606	0.469387	26,047,491
8	135,493,000	38,712,000		-15,014,449	52,550,960	82,942,040	5,662,868	3,800,819	18,602,366	51,763,604	0.421315	21,808,767
9	96,781,000	38,712,000		-15,014,449	37,536,511	59,244,489	4,044,917	2,714,879	17,577,254	48,034,601	0.378166	18,165,051
10	58,069,000	38,712,000		-15,014,449	22,522,062	35,546,938	2,426,967	1,628,938	16,552,143	44,305,599	0.339436	15,038,928
11	19,357,000	19,357,000		-7,507,612	7,507,612	11,849,388	809,017	542,998	8,020,195	21,221,597	0.304673	6,465,649
										634,489,857		381,150,281

Col (1): Estimated cancellation costs as of June 30, 1987.
 Col (2): 10-Year amortization on the half year.
 Col (3): Assumes that all Trimble Co investment would be
 written off in the first year for tax purposes.
 Col (4): (Col (3) - (2)) X Income Tax Rate.
 Col (6): Col (1) - (5).
 Col (7): Col (6) X Weighted Cost of Common and Preferred Stock.
 Col (8): Col (6) X Weighted Cost of Debt.
 Col (9): (Col (7) + (4) + (2) - (3)) X Income Tax Rate / (1 - Income Tax Rate)
 Col (10) Col (2) + (7) + (8) + (9) + (4)

ASSUMPTIONS

--- Embedded ---

Cost of Capital	Ratio	Cost	Weighted Incremental		Tax Benefit of Write-off (\$000)						
			Cost	Cost	TAX INCOME	TAX	WRITE-OFF	TAX	FEDERAL	STATE	
Debt	47.00%	9.75%	4.58%	9.75%	W/O WRITE-OFF	RATE		BENEFIT	TAX RATE	TAX RATE	
Preferred	8.00%	8.00%	0.64%								
Equity	45.00%	13.75%	6.19%		Current Year						
Total	100.00%		11.41%	9.75%	1987	101,510	44.350%	101,510	45,020	40.00%	7.25%
After-tax			9.63%	5.97%	Loss Carry Back						
					1984	101,396	49.240%	101,396	49,927	46.00%	6.00%
Amortization Period:				35 years	1985	84,838	49.521%	84,838	42,012	46.00%	6.52%
Tax Rate:				38.785%	1986	100,872	49.915%	99,378	49,605	46.00%	7.25%
Total Cancellation Costs:			387,122,000		TOTAL		48.193%	387,122	186,564		

RESULTS

NPV of Revenue Requirements 276,061,914

Year	Unamortized Canceled		Tax Write-off	Deferred Income Tax	Accumulated Deferred Income Tax	Balance Included in Rate Base	Return On Equity	Interest On Debt	Income Tax	Revenue Requirement	11.41% Present Value (Using Pre-Tax Embedded Ra)	
	Plant	Amortization									Factor	Rev Req
1	387,122,000	5,530,314	387,122,000	184,111,366	186,564,060	200,557,940	6,849,054	4,592,777	(178,653,045)	22,430,465	0.897585	20,133,260
2	381,591,686	11,060,629		(5,330,402)	183,898,859	197,692,827	13,502,420	9,054,331	12,185,546	40,472,525	0.805660	32,607,083
3	370,531,057	11,060,629		(5,330,402)	178,568,457	191,962,600	13,111,046	8,791,887	11,937,577	39,570,736	0.723148	28,615,518
4	359,470,429	11,060,629		(5,330,402)	173,238,056	186,232,373	12,719,671	8,529,443	11,689,607	38,668,948	0.649088	25,099,534
5	348,409,800	11,060,629		(5,330,402)	167,907,654	180,502,146	12,328,297	8,266,998	11,441,637	37,767,159	0.582612	22,003,585
6	337,349,171	11,060,629		(5,330,402)	162,577,252	174,771,919	11,936,922	8,004,554	11,193,668	36,865,371	0.522944	19,278,514
7	326,288,543	11,060,629		(5,330,402)	157,246,851	169,041,692	11,545,548	7,742,110	10,945,698	35,963,582	0.469387	16,880,827
8	315,227,914	11,060,629		(5,330,402)	151,916,449	163,311,465	11,154,173	7,479,665	10,697,729	35,061,794	0.421315	14,772,049
9	304,167,286	11,060,629		(5,330,402)	146,586,047	157,581,239	10,762,799	7,217,221	10,449,759	34,160,005	0.378166	12,918,151
10	293,106,657	11,060,629		(5,330,402)	141,255,645	151,851,012	10,371,424	6,954,776	10,201,789	33,258,217	0.339436	11,289,045
11	282,046,029	11,060,629		(5,330,402)	135,925,244	146,120,785	9,980,050	6,692,332	9,953,820	32,356,428	0.304673	9,858,133
12	270,985,400	11,060,629		(5,330,402)	130,594,842	140,390,558	9,588,675	6,429,888	9,705,850	31,454,640	0.273470	8,601,905
13	259,924,771	11,060,629		(5,330,402)	125,264,440	134,660,331	9,197,301	6,167,443	9,457,880	30,552,851	0.245463	7,499,589
14	248,864,143	11,060,629		(5,330,402)	119,934,039	128,930,104	8,805,926	5,904,999	9,209,911	29,651,063	0.220324	6,532,837
15	237,803,514	11,060,629		(5,330,402)	114,603,637	123,199,877	8,414,552	5,642,554	8,961,941	28,749,274	0.197760	5,855,442
16	226,742,886	11,060,629		(5,330,402)	109,273,235	117,469,651	8,023,177	5,380,110	8,713,972	27,847,486	0.177506	4,943,098
17	215,682,257	11,060,629		(5,330,402)	103,942,833	111,739,424	7,631,803	5,117,666	8,466,002	26,945,697	0.159327	4,293,174
18	204,621,629	11,060,629		(5,330,402)	98,612,432	106,009,197	7,240,428	4,855,221	8,218,032	26,043,909	0.143009	3,724,526
19	193,561,000	11,060,629		(5,330,402)	93,282,030	100,278,970	6,849,054	4,592,777	7,970,063	25,142,120	0.128363	3,227,324
20	182,500,371	11,060,629		(5,330,402)	87,951,628	94,548,743	6,457,679	4,330,332	7,722,093	24,240,332	0.115217	2,792,898
21	171,439,743	11,060,629		(5,330,402)	82,621,227	88,818,516	6,066,305	4,067,888	7,474,124	23,338,543	0.103417	2,413,604
22	160,379,114	11,060,629		(5,330,402)	77,290,825	83,088,289	5,674,930	3,805,444	7,226,154	22,436,755	0.092826	2,082,707
23	149,318,486	11,060,629		(5,330,402)	71,960,423	77,358,063	5,283,556	3,542,999	6,978,184	21,534,966	0.083319	1,794,272
24	138,257,857	11,060,629		(5,330,402)	66,630,021	71,627,836	4,892,181	3,280,555	6,730,215	20,633,178	0.074786	1,543,071
25	127,197,229	11,060,629		(5,330,402)	61,299,620	65,897,609	4,500,807	3,018,110	6,482,245	19,731,389	0.067127	1,324,504
26	116,136,600	11,060,629		(5,330,402)	55,969,218	60,167,382	4,109,432	2,755,666	6,234,276	18,829,601	0.060252	1,134,521
27	105,075,971	11,060,629		(5,330,402)	50,638,816	54,437,155	3,718,058	2,493,222	5,986,306	17,927,812	0.054081	969,560
28	94,015,343	11,060,629		(5,330,402)	45,308,415	48,706,928	3,326,683	2,230,777	5,738,336	17,026,024	0.048543	826,488
29	82,954,714	11,060,629		(5,330,402)	39,978,013	42,976,701	2,935,309	1,968,333	5,490,367	16,124,235	0.043571	702,551
30	71,894,086	11,060,629		(5,330,402)	34,647,611	37,246,475	2,543,934	1,705,889	5,242,397	15,222,447	0.039109	595,332
31	60,833,457	11,060,629		(5,330,402)	29,317,209	31,516,248	2,152,560	1,443,444	4,994,427	14,320,658	0.035104	502,705
32	49,772,829	11,060,629		(5,330,402)	23,986,808	25,786,021	1,761,185	1,181,000	4,746,458	13,418,870	0.031508	422,807
33	38,712,200	11,060,629		(5,330,402)	18,656,406	20,055,794	1,369,811	918,555	4,498,488	12,517,081	0.028281	354,002
34	27,651,571	11,060,629		(5,330,402)	13,326,004	14,325,567	978,436	656,111	4,250,519	11,615,293	0.025385	294,855
35	16,590,943	11,060,629		(5,330,402)	7,995,603	8,595,340	587,062	393,667	4,002,549	10,713,504	0.022785	244,110
36	5,530,314	5,530,314		(2,665,201)	2,665,201	2,865,113	97,844	65,611	1,877,290	4,905,858	0.020452	100,333